SECTOR UPDATE

Utilities – Renewable Energy – Malaysia

Robust Orderbook Underpinned By Positive Regulatory Outlook

We expect renewable energy players and offtaker Tenaga to benefit from Malaysia's green policy. A total of 30 bidders have submitted tenders for grid-connected battery system known as MyBeST. This provides EPCC jobs up to RM1.2b. In addition, we expect total solar PV capacity to exceed 6.5GW over 2026-27 under LSS5+ and LSS6. This yields a staggering RM13b-16b of EPCC replenishment opportunities in the next three years. Maintain OVERWEIGHT. Top picks are Tenaga and Pekat.

OVERWEIGHT

(Maintained)

SECTOR TOP PICKS (UTILITIES - RENEWABLE ENERGY)

Top pick	Rec	Target Price (RM)	EV/ EBITDA (x)	Div Yield (%)
Tenaga	BUY	16.30	5.6	3.7
Pekat	BUY	1.70	9.2	0.6

Source: Bloomberg, UOB Kay Hian

WHAT'S NEW

- **MyBeST to be awarded by 4Q25.** According to industry sources, a total of 30 bidders have submitted their tenders to Suruhanjaya Tenaga (ST) for Malaysia's inaugural grid-connected battery energy storage system (BESS) project. The project is known as MyBeST which will cover a total of four sites across Peninsular Malaysia (potentially in Perak and Negri Sembilan), and each location being allocated a capacity of 100MW/400MWh of BESS assets. Each project is valued at around RM300m, and will require 5–7 acres of land for the development of the utility-scale asset. We expect the tender award to be announced by 4Q25 with commercial operation date (COD) slated for Apr 27.
- **Key beneficiaries.** According to media reports, companies who have submitted a bid include Tenaga, Malakoff, YTL Power, Petronas Gas, Gamuda, Gentari and Mega First. In addition, solar engineering, procurement, construction and commissioning (EPCC) players like Solarvest, Samaiden and Pekat may be beneficiary of EPCC opportunities.
- **A base project IRR of 5-6% for MyBeST?** For asset owners, the RFP requires a battery system that is operational for 15 years, suggesting a power purchase agreement (PPA) that is over a similar tenure. Importantly, the BESS PPA will be structured into two tranches: a) capacity payment; and b) service tariff, for the charge and discharge of the energy stored inside the battery. Our channel check suggests that the project internal rate of return (IRR) – purely based on the capacity payment – could be as low as 5-6%. Assuming an additional service tariff of 2-3%, we expect the MyBeST project to yield project IRRs of 7-9%. This is similar to current large-scale solar projects, ie LSS5. Weighted cost of capital is likely in the region of 4.5-5% for most of the larger consortiums.
- **New hybrid policy to succeed NEM 3.0.** Separately, based on our discussions with industry players, the government appears to be finalising a successor framework for rooftop solar energy generation to replace NEM 3.0. This new policy is expected to incorporate elements of both Net Energy Metering (NEM) and Self-Consumption (SelCo) framework. The upcoming policy is expected to further promote rooftop solar adoption by aligning with the revised electricity tariff structure that came into effect in Jul 25. Channel checks point to a Net Billing framework (excess solar is sold at a lower fixed tariff, while charging electricity imports at retail rates), as the more probable outcome, with mandatory BESS adoption among residential consumers deemed unlikely given cost constraints.

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PEER COMPARISON

Company	Tickers	Rec	Share Price 21 Aug 25 (RM)	Target Price (RM)	Market Cap (RMm)	PE FY25F (x)	PE FY26F (x)	EV/EBITDA FY25F (x)	EV/EBITDA FY26F (x)	Dividend Yield FY25F (%)	Dividend Yield FY26F (%)
Malakoff Corp	MLK MK	BUY	0.95	1.08	4,643	16.5	13.3	5.2	4.7	5.2	5.2
Tenaga	TNB MK	BUY	13.64	16.30	79,510	17.3	16.2	5.6	5.3	3.7	3.9
Gas Malaysia	GMB MK	HOLD	4.30	4.25	5,643	13.8	12.7	8.1	7.5	5.7	5.9
RE											
Pekat Group	PEKAT MK	BUY	1.58	1.70	1,019	20.3	18.2	9.2	7.6	0.6	0.6
Samaiden Group	SAMAIDEN MK	N.R.	1.17	n.a.	527	24.9	19.2	15.7	9.9	0.9	0.9
Solarvest Holdings	SOLAR MK	N.R.	2.40	n.a.	1,950	25.0	21.6	14.1	14.2	1.0	1.0
Sunview Group	SUNVIEW MK	N.R.	0.40	n.a.	227	16.0	14.3	9.6	8.1	0.0	0.0

Source: UOB Kay Hian

ACTION

- **Maintain OVERWEIGHT; elevated orderbook driven by 6-7GW of solar plant-ups**. We expect total solar PV capacity to exceed 6.5GW over 2026-27 as the government calls for tenders for the large-scale solar programmes (ie LSS5+ and LSS6). Assuming a construction cost of RM2.0m-2.5m per MW, total EPCC replenishment opportunities are estimated at a staggering RM13b-16b in the next five years. **We reiterate OVERWEIGHT on the sector. Top picks are Tenaga and Pekat.**

- **Key events in 2H25**: a) Expected announcement of LSS5+ winners in Aug 25, b) LSS6 bidding announcement towards 3Q25, and c) MyBeST award by 4Q25.

- **Tenaga Nasional Berhad (BUY/Target: RM16.30).** With a 51% market share of installed capacity in Peninsular Malaysia, we expect Tenaga's generation unit (TNB Genco), to benefit from the new power plants to be rolled out by the government. **We like the stock for its good earnings visibility, potentially higher dividend payout, and decoupling of tariff from the government's purview.** We recently lowered the equity risk premium on the stock (from 8.2% to 7.8%) to reflect tariff autonomy and the gradual decoupling of tariffs from the government's purview. At our target price, the stock trades at 17.3x 2025F EPS, +2SD above five-year mean PE. **Key re-rating catalysts** include: a) giving TNB the autonomy to change electricity prices by 7% without seeking Cabinet approval every six months, b) recognition of contingent capex in the 2026-27 earnings window; c) listing of a profitable genco and/or RE division, and d) earnings-accretive M&As.

- **Pekat Group (PEKAT MK/BUY/Target: RM1.70).** Pekat remains our top renewable energy (RE) pick, driven by a robust orderbook of RM630m and full-year consolidation of 60%-owned EPE Switchgear. Importantly, we expect Pekat to demonstrate capability to pull away from competition with its strong execution track record, especially in view of recent margin compression due to higher solar module prices.

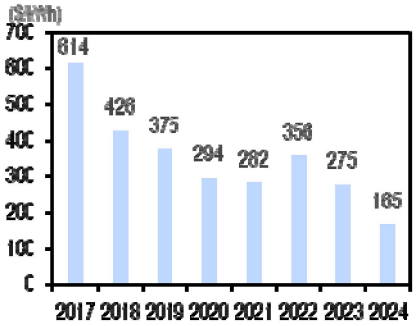
ESSENTIALS

- **CRESS update: Potential SAC revision to bolster take-up.** We anticipate the system access charge (SAC) for Corporate Renewable Energy Supply Scheme (CRESS) projects to be revised down by 5 sen/kWh (currently set at 25 sen/kWh for firm output and 45 sen/kWh for non-firm output). The government will likely announce the lower SAC right after the announcement of LSS5+ winners sometime in Oct 25. We deem this positive as this enables asset owners to offer more competitive tariffs to prospective off-takers while preserving project returns (around10% IRR). Data centre operators are expected to be the first movers under the CRESS scheme, with asset owners benefitting from larger-scale solar farms (around 500MW), where SAC constraints are less material at such capacity levels.

- **China anti-involution policy - solar module prices projected to hit US$0.10/watt.** Our channel checks have confirmed that solar module prices are expected to edge up to US$0.10/watt (US$0.01/watt or 12% increase) by the year end. This comes amid China's anti-involution push to curb 'involution-style' low-price competition and accelerate the phasing-out of outdated industrial capacity. Prices are expected to remain manageable with EPCC players proactively locking in module prices with suppliers for up to 1.5 years. Despite a required downpayment, adverse impact on gross margins is expected to be mitigated by up to 50% as industry players have largely factored in elevated module prices into their forecasts. Nevertheless, we believe there will still be adverse profit margin impact to both solar asset owners and EPCC contractors:

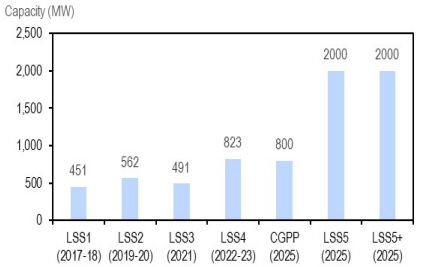
  - **Large-scale solar (LSS) asset owners:** Together with wider scope of sales and service tax (SST) in Malaysia, which inevitably will lead to higher construction costs, we expect overall cost of a utility-based solar plant to rise by 20%. This will negatively impact solar projects' IRR by 1-1.5%. This headwind is expected to adversely hit upcoming solar projects, with LSS5 and LSS5+ to commence construction in 2026-27. Given the low tariff submitted for LSS5, we believe project IRRs could hover between 5-7%. As such, China's anti-involution movement is a key headwind impacting the viability of LSS5 projects. Award winners may eventually have to turn to the Energy Commission (EC), the regulator, to get

TURNKEY BESS HISTORICAL PRICE



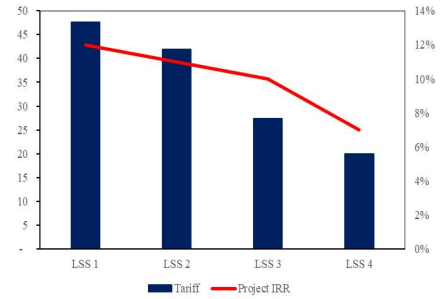
Source: Solarvest, UOB Kay Hian

LARGE-SCALE SOLAR PROJECTS IN MALAYSIA



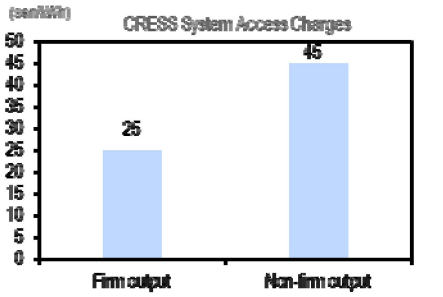
Source: Energy Commission, UOB Kay Hian

LSS PROJECT IRRS ARE FALLING DUE TO COMPETITIVE OPEN BIDDING



Source: Energy Commission, UOB Kay Hian

CRESS CURRENT SYSTEM ACCESS CHARGES (SAC)



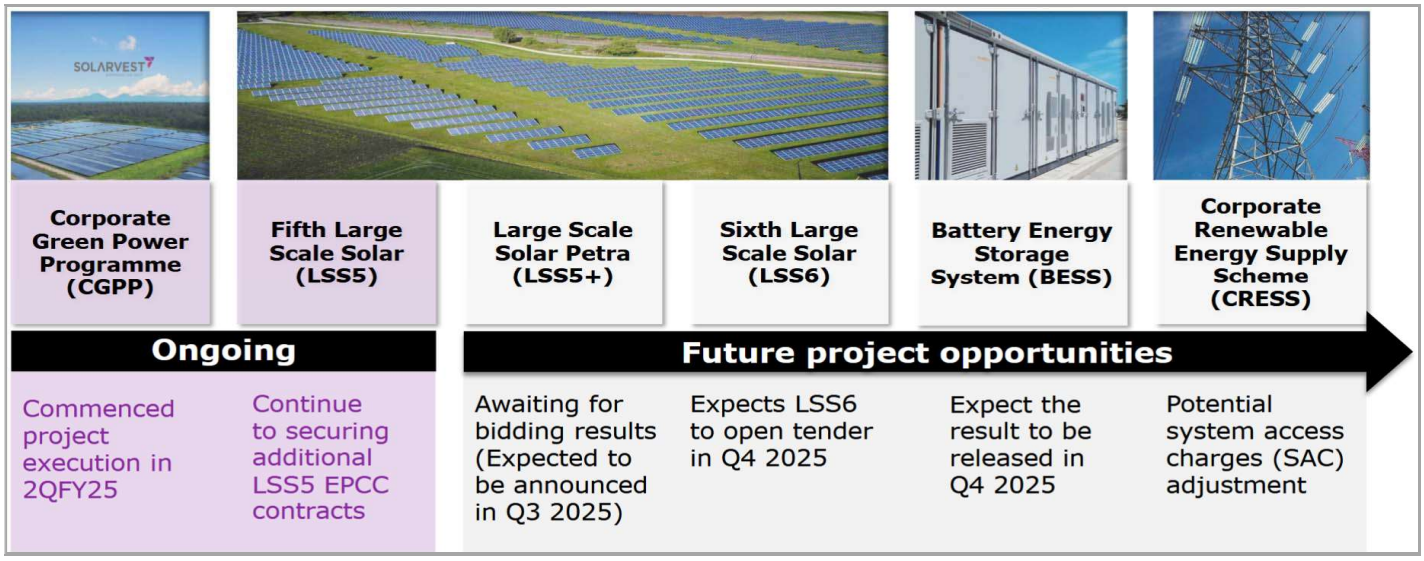
Source: Energy Commission, UOB Kay Hian

a revision in terms of tenure of the LSS5 project or higher tariff to ensure the viability of such a project.

- **Impact on EPCC – potential margin compression.** As project IRRs are lowered, EPCC contractors may also face margin pressure under LSS5 and LSS5+ jobs. As project IRRs suffer, asset owners may also squeeze the profit margin of EPCC players – likely by 1-2%. That said, the impact will be partly offset by an elevated orderbook in the next three years as the long-term outlook for solar projects plant-ups remains bright. Solar EPCC players may also pivot into other solar RE projects like Selco and CRESS with battery energy storage systems.

- **Potential SST exemption up to Dec 25.** Technically, effective from Jul 25, solar EPCC projects will be subjected to a 6% service tax under Malaysia's expanded SST on construction services. We believe the industry may have gotten an exemption on SST for projects that are to be completed by Dec 25. By 2026, the SST impact will be in place and this may lead to lower payback for solar projects. With an additional 6% SST, rooftop solar project payback periods may shift from the current 3.5 years to 5 years, dampening demand, particularly in the C&I and residential segments. Naturally, demand will return once electricity tariffs rise over time.

UTILITY SCALE POLICY WITHIN MALAYSIA'S RENEWABLE ENERGY SECTOR


SOLARVEST
Corporate Green Power Programme (CGPP)
Fifth Large Scale Solar (LSS5)
Large Scale Solar Petra (LSS5+)
Sixth Large Scale Solar (LSS6)
Battery Energy Storage System (BESS)
Corporate Renewable Energy Supply Scheme (CRESS)
Ongoing
Future project opportunities
Commenced project execution in 2QFY25
Continue to securing additional LSS5 EPCC contracts
Awaiting for bidding results (Expected to be announced in Q3 2025)
Expects LSS6 to open tender in Q4 2025
Expect the result to be released in Q4 2025
Potential system access charges (SAC) adjustment

Source: Solarvest

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